




Homeland Security

September 7, 2010

MEMORANDUM FOR: Nancy Ward
Regional Administrator
FEMA Region IX

FROM: 
Robert J. Lastrico
Western Regional Director

SUBJECT: *City of Glendale, California*
Public Assistance Identification Number 037-30000-00
FEMA Disaster Number 1577-DR-CA
Audit Report Number DS-10-10

We audited public assistance funds awarded to the City of Glendale, California (City). The objective of the audit was to determine whether the City expended and accounted for Federal Emergency Management Agency (FEMA) funds according to federal regulations and FEMA guidelines.

The City received a public assistance subgrant award of \$4.3 million from the California Office of Emergency Services (OES)¹ a FEMA grantee, for emergency protective measures and permanent repairs to facilities damaged by severe storms beginning on December 27, 2004, and continuing through January 11, 2005. Of the \$4.3 million, FEMA provided 75% federal funding and non-federal sources funded the remaining 25% for 23 projects (10 large projects and 13 small projects²). The audit covered the period of December 27, 2004, through July 14, 2010, and included reviews of all 10 large projects with a total award of \$4.2 million (see Exhibit). As of July 14, 2010, the City had completed nine large projects and one was in progress.

We conducted this performance audit under the authority of the *Inspector General Act of 1978*, as amended, and according to generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient and appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. The evidence obtained during the audit provides a reasonable basis for our findings and conclusions based on our audit objective. We interviewed FEMA, Cal EMA, and City officials; reviewed judgmentally selected samples of cost documentation to support project costs; and performed other procedures considered necessary to accomplish our objective. We did not assess the adequacy of the City's internal controls applicable to subgrant activities because it was not necessary to accomplish our

¹ OES became a part of the California Emergency Management Agency (Cal EMA) on January 1, 2009.

² At the time of the disaster, the large project threshold was at \$55,500.

audit objective. We did, however, gain an understanding of the City’s method of accounting for disaster-related costs.

RESULTS OF AUDIT

Of the \$4.2 million in disaster costs the City has recorded for the 10 projects we reviewed, \$290,087 did not comply with the criteria required for federal reimbursement (federal share - \$217,565). The table below lists the areas in which we questioned the amounts identified by the City as claimable.

Finding	Subject	Amount Questioned
A	Eligibility of Project Costs	\$146,257
B	Force Account Costs	124,082
C	Costs Covered by FEMA’s Administrative Allowance	19,748
Total		\$290,087

Finding A - Eligibility of Project Costs

The City’s accounting records included \$146,257 in ineligible charges for the five projects identified below. According to Title 44, *Code of Federal Regulations*, Section 206.223 [44 CFR 206.223],³ an item of work must be required as a result of a major disaster to be eligible for financial assistance.

Project Number	Ineligible Charges
2859	\$112,921
2850	11,981
2854	11,981
2602	8,822
2867	552
Total	\$146,257

- For PW 2859, City records included \$112,921 in costs for work unrelated to the FEMA approved scope of work (SOW). Work outside the approved SOW included \$89,945 for clean up on a different project and \$7,744 for consulting services that were not for this PW. The City agreed that \$97,689 in costs identified to the PW were outside the SOW. However, the City believes that the remaining \$15,232 for repairs to a damaged driveway (\$112,921 less \$97,689), should be reimbursed under the Public Assistance program since the work was required as a result of the disaster. Records supporting the funding for PW 2859 did not identify the driveway as a disaster damaged element, or include related repairs in the FEMA approved SOW. City officials explained that the need to repair the sidewalk was identified during the design phase of project execution but neither Cal EMA nor FEMA were notified of the change in the SOW.

³ All citations from the CFR are taken from the edition in effect at the time of the disaster (October 1, 2004).

- The City allocated a contract charge of \$23,962 equally between PWs 2850 and 2854 (\$11,981 each) for repair work that was unrelated to the SOW approved by FEMA. City officials agreed that the costs are not eligible for FEMA reimbursement.
- For PW 2602, City records included \$8,822 in charges unrelated to the FEMA approved SOW. City officials agreed that the costs incurred are unrelated to SOW.
- For PW 2867, City accounting records included \$552 in consulting fees specifically excluded from the project SOW. City officials agreed the fees are not eligible costs.

The project costs identified above are not eligible for funding under FEMA’s Public Assistance program because the City did not request and obtain FEMA approval for the additional work, and the work could not be identified as needed to restore damaged facilities to their pre-disaster condition (44 CFR 206.226). Therefore, the \$146,257 in project cost increases is questionable.

Finding B – Force Account Costs

City records included \$124,082 in unsupported force account costs and duplicative entries. According to 44 CFR 13.20(a)(2), the City is required to have fiscal controls and accounting procedures that permit the tracing of funds to a level of expenditures adequate to establish that such funds have not been used in violation of the restrictions and prohibitions of applicable statutes. To meet this financial management standard, the City, at a minimum, should maintain accounting records that identify how FEMA funds are used and ensure that its accounting records are supported by source documents such as payroll and time and attendance records, equipment usage logs, and material acquisition reports.

The City prepared detailed worksheets (cost summaries) on a per project basis for purposes of requesting FEMA reimbursement for disaster work. The cost summaries identified force account cost by date, employee, equipment or materials used, applicable hours, and costs incurred. As shown in the table below, the cost summaries for five projects with force account charges totaling \$388,228 (labor, equipment, and material) contained questionable force account costs totaling \$124,082.

PW Number	Recorded Force Account Costs	Questionable Force Account Costs
2896	\$ 94,490	\$ 76,059
2867	70,101	2,825
2859	46,347	3,814
2854	100,526	20,692
2850	76,764	20,692
Total	\$ 388,228	\$ 124,082

- City records for PW 2896 did not include support, such as timesheets, equipment usage logs, and material inventory reports for \$76,059 of the \$94,490 in force account costs recorded for this PW. City officials could not locate the missing records. They believed that the documents were discarded as a result of the City’s record retention practices. According to 44 CFR 13.42(b) and (c), records must be retained for 3 years from the date that the grantee (Cal EMA) submits the City's final expenditures report to FEMA.

- City records for PW 2867 did not support \$2,825 of \$4,666 in force account labor costs recorded for one employee. We recomputed claimable costs for the employee using hours applied to disaster work and the applicable labor rate; and determined that the charge to the PW was overstated by \$2,825.
- City cost summaries for PWs 2859, 2854 and 2850 recorded \$223,637 in force account costs but included \$41,384 in duplicative costs and a minimum of \$3,814 in unsupported costs.

In reviewing the cost summaries, we identified that \$41,384 in force account charges was recorded to PW 2859 and the same charges were equally recorded for PWs 2854 and 2850; 50% (\$20,692) to each of the two PWs. Because the force account cost was recorded in duplicate, we question \$41,384 of the \$82,768 in force account charges allocated to the three PWs.

To determine the propriety of the remaining \$41,384 (\$82,768 less \$41,384), we traced a sample of the charges (\$9,085) to supporting documentation. Our review identified that City records supported \$5,271, but did not include documentation for the remaining \$3,814 (42%).

City officials agreed with our conclusion regarding the three PWs and noted that they would take action to: 1) correct PW cost summaries to eliminate duplicative entries and unrelated charges, and 2) provide Cal EMA and FEMA with accurate and complete information for all three PWs. Nonetheless, of the \$82,768 in force account costs included in City cost summaries for PWs 2859, 2854 and 2850, we question \$45,198 (\$41,384 plus \$3,814) as duplicative and unsupported charges.

Since City records for the five PWs did not include support for the force account charges, and some force account costs were recorded in duplicate, we question \$124,082 of the cost the City has recorded for PWs 2896, 2867, 2859, 2854, and 2850. We limited our testing of charges for PWs 2859, 2854, and 2850 to only a few transactions since the PW cost summaries were unreliable due to the high number of recording errors we identified. Therefore, Cal EMA and FEMA should ensure that all costs reported by the City for the three projects are valid and supported with adequate documentation.

Finding C - Costs Covered by FEMA’s Administrative Allowance

The direct costs recorded by the City for the three projects included \$19,748 in charges covered by FEMA’s statutory administrative allowance. The costs identified below were allocated to the projects using an indirect cost rate.

Project Number	Charges Allocated Based on an Indirect Cost Rate
2867	\$17,299
2859	1,335
2854	1,114
Total	\$19,748

According to 44 CFR 206.228(a)(2)(ii),⁴ the costs associated with requesting, obtaining, and administering public assistance subgrants are covered by FEMA's statutory administrative allowance. Under 44 CFR 206.228(b)(2), a subgrantee's indirect costs are not separately eligible for reimbursement because the percentage allowance specified in paragraph (a)(2)(ii) covers indirect costs. Since federal regulations limit the reimbursement of a subgrantee's administrative costs to funding provided by the percentage allowance, the City's indirect costs of \$19,748 are not separately eligible for reimbursement.

RECOMMENDATIONS

We recommend that the Regional Administrator, FEMA Region IX:

Recommendation #1. Require Cal EMA to disallow \$146,257 in questionable costs relating to PWs 2859, 2850, 2854, 2602, and 2867 identified by the City as claimable costs (Finding A).

Recommendation #2. Require Cal EMA to disallow \$124,082 in questionable force account charges relating to PWs 2896, 2867, 2859, 2854, and 2850 identified by the City as claimable costs (Finding B).

Recommendation #3. In coordination with Cal EMA, ensure that all costs reported by the City for PWs 2859, 2854, and 2850 are valid and supported with adequate documentation (Finding B).

Recommendation #4. Require Cal EMA to disallow \$19,748 in charges covered by FEMA's statutory administrative allowance relating to PWs 2867, 2859, and 2854 identified by the City as claimable costs (Finding C).

DISCUSSION WITH MANAGEMENT AND AUDIT FOLLOW-UP

We discussed the results of our review with City, Cal EMA, and FEMA officials during the audit and included their comments in this report as appropriate. We also provided written summaries of our findings and recommendations in advance to these officials and discussed them at exit conferences held with the City on July 14, 2010, and with Cal EMA and FEMA on July 15, 2010. City officials agreed with Findings B and C, and partially agreed with Finding A. Both Cal EMA and FEMA withheld responses pending issuance of the final audit report. Please advise this office by November 8, 2010, of the actions planned or taken to implement the recommendations, including target completion dates for any planned actions. Significant contributors to this report were Humberto Melara, Renee Gradin, and Antonio Fajardo. Should you have questions concerning this report, please call me at (510) 637-1482, or your staff may contact Humberto Melara, Audit Manager, at (510) 637-1463.

cc: Audit Liaison, FEMA Region IX
Audit Liaison, FEMA (Job Code: G-10-011-EMO-FEMA)

⁴ Effective November 13, 2007, provisions on administrative and management costs previously included in 44 CFR 206.228(a) were incorporated in 44CFR 207.9(b) & (c).

City of Glendale, California
 Public Assistance Identification Number 037-30000-00
 FEMA Disaster Number 1577-DR-CA

PW Number	PW Award Amount	Costs Incurred	Costs Questioned	Finding Reference
2859	\$ 2,223,751	\$2,229,823	\$118,070	A, B, C
3086*	964,600	3,463,165	0	
2867	284,735	418,055	20,676	A, B, C
2829	167,493	167,493	0	
2854	113,979	206,105	33,787	A, B, C
2861	106,687	124,587	0	
2602	102,206	66,514	8,822	A
2850	90,458	76,764	32,673	A, B
2896	83,889	146,347	76,059	B
2860	69,697	129,571	0	
Total	\$4,207,495	\$7,028,424	\$290,087	

* PW 3086 is an improved project and FEMA funding was capped at the federal share of the PW award amount.

Finding Reference

A – Eligibility of Project Costs

B – Force Account Costs

C – Costs Covered by FEMA’s Administrative Allowance